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Department of the Treasury
Internal Revenue Service

Instructions for Form 2555

Foreign Earned Income

(Section references are to the Internal Revenue Code.)

General Instructions

Paperwork Reduction Act Notice. We ask for this information to carry out the Internal Revenue laws of the United States. We need it to ensure that taxpayers are complying with these laws and to allow us to figure and collect the right amount of tax. You are required to give us this information.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

Recordkeeping	2 hrs., 10 min.
Learning about the law or the form	26 min.
Preparing the form	1 hr., 50 min.
Copying, assembling, and sending the form to IRS	49 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to either the IRS or the Office of Management and Budget at the addresses listed in the Instructions for Form 1040.

Purpose of Form. If you are a U.S. citizen or a U.S. resident alien living in a foreign country, you are subject to the same U.S. income tax laws that apply to citizens and resident aliens living in the United States. However, if you qualify, use Form 2555 to exclude a limited amount of your foreign earned income. Also use it to claim the housing exclusion or deduction. You may not, however, exclude or deduct more than your foreign earned income for the tax year.

Note: *Specific rules apply to determine whether you are a resident or nonresident alien of the United States. Get* ***Pub. 519****, U.S. Tax Guide for Aliens, for details.*

Who Qualifies. You qualify for the tax benefits available to taxpayers who have foreign earned income if you meet the **tax home test** (defined later) **and** you are either:

- A U.S. citizen who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes a complete tax year (**bona fide residence test**); or
- A U.S. citizen or a U.S. resident alien who is physically present in a foreign country, or countries, for at least 330 full days during any period of 12 months in a row (**physical presence test**).

Note: *If your only earned income from work abroad is pay you received from the U.S. Government as its employee, you do not qualify for either of the exclusions or the housing deduction. Do* ***not*** *file Form 2555.*

Tax Home Test. Your **tax home** must be in a foreign country, or countries, throughout your period of bona fide residence or physical presence, whichever applies. (For this purpose, your period of physical presence is the 330 full days during which you were present in a foreign country, not the 12 consecutive months during which those days occurred.)

Your **tax home** is your regular or principal place of business, employment, or post of duty, regardless of where you maintain your family residence. If you do not have a regular or principal place of business because of the nature of your trade or business, your tax home is your regular place of abode (the place where you regularly live).

You are not considered to have a tax home in a foreign country for any period during which your abode is in the U.S. However, if you are temporarily present in the U.S., or if you maintain a dwelling in the U.S. (whether or not that dwelling is used by your spouse and dependents), it does not necessarily mean that your abode is in the U.S. during that time.

Example. You are employed on an offshore oil rig in the territorial waters of a foreign country and work a 28-day on/28-day off schedule. You return to your family residence in the U.S. during your off periods. You are considered to have an abode in the U.S. and **do not** meet the tax home test. Therefore, you **may not** claim either of the exclusions or the housing deduction.

Foreign Country. A foreign country is any territory (including the air space, territorial waters, seabed, and subsoil) under the sovereignty of a government other than the United States. It does not include U.S. possessions or territories.

Violation of Travel Restrictions. Generally, if you were in a foreign country in violation of U.S. travel restrictions, the following rules apply: (1) any time spent in that country may not be counted in determining if you qualify under the bona fide residence or physical presence test; (2) any income earned in that country is not considered foreign earned income; and (3) any housing expenses in that country (or housing expenses for your spouse or dependents in another country while you were in that country) are not considered qualified housing expenses. U.S. travel restrictions currently apply to Cuba, Kampuchea (Cambodia), Libya, North Korea, and Vietnam.

Additional Information. Pub. 54, Tax Guide for U.S. Citizens and Resident Aliens Abroad, contains more information about the bona fide residence test, the physical presence test, the foreign earned income exclusion, and the housing exclusion and deduction. You can get the publication from most U.S. embassies and consulates, or by writing to:

Forms Distribution Center
P.O. Box 25866
Richmond, VA 23289

Waiver of Time Requirements. If your tax home was in a foreign country and you were a bona fide resident of, or physically present in, a foreign country and had to leave because of war, civil unrest, or similar adverse conditions, the minimum time requirements specified under the bona fide residence and physical presence tests may be waived. You must be able to show that you reasonably could have expected to meet the minimum time requirements if you had not been required to leave. If you left one of the countries listed on page 4 during the period indicated, you can claim the tax benefits on Form 2555, but only for the number of days you were a bona fide resident of, or physically present in, the foreign country.

If you can claim either of the exclusions or the housing deduction because of the waiver of time requirements, attach a statement to your return explaining that you expected to meet the applicable time requirement, but that the conditions in the foreign country prevented you from the normal conduct of business. Also write "Claiming Waiver" in the top margin on page 1 of your 1989 Form 2555.

Where To File. Attach Form 2555 to the front of your Form 1040 and send it to the Internal Revenue Service Center, Philadelphia, PA 19255.

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When To File. A 1989 calendar year Form 1040 is generally due April 16, 1990.

However, you are automatically granted a 2-month extension of time to file (to June 15, 1990, for a 1989 calendar year return) if, on the due date of your return, you live outside the U.S. and Puerto Rico, AND your tax home (defined earlier) is outside the U.S. and Puerto Rico. If you take this extension, you must attach a statement to your return explaining that you meet these two conditions.

The automatic 2-month extension also applies to paying the tax. However, interest is charged on the unpaid tax from the regular due date (April 15 for a calendar year return) until it is paid.

Special Extension of Time. If you plan to take the foreign earned income exclusion and/or the housing exclusion or deduction, but do not expect to qualify until after the end of the automatic 2-month extension period described above, you may apply for an extension to a date after you expect to qualify.

To apply for this extension, complete and file **Form 2350**, Application for Extension of Time To File U.S. Income Tax Return, with the Internal Revenue Service Center, Philadelphia, PA 19255, before the due date of your return. Interest is charged on the tax not paid by the regular due date as explained above.

Choosing the Exclusion(s). To choose either of the exclusions, complete the appropriate parts of Form 2555 and file it with your Form 1040 or **Form 1040X**, Amended U.S. Individual Income Tax Return.

Once you choose to claim an exclusion, that choice remains in effect for that year and all future years unless it is revoked. If you revoke your choice, however, you may not claim the exclusion(s) for your next 5 tax years without the approval of the Internal Revenue Service. See Pub. 54 for more information.

Earned Income Credit. You will not qualify for the earned income credit if you claim either of the exclusions or the housing deduction.

Specific Instructions

Part I

Bona Fide Residence Test. To qualify under this test, you must be a U.S. citizen who is a bona fide resident of a foreign country, or countries, for an uninterrupted period that includes a **complete tax year** (January 1–December 31, if you file a calendar year return).

No specific rule determines whether you are a bona fide resident of a foreign country, because the determination involves your intention about the length and nature of your stay. Evidence of your intention may be your words and acts. If these conflict, your acts carry more weight than your words. Generally, if you go to a foreign country for a definite, temporary purpose and return to the United States after you accomplish it, you are not a bona fide resident of the foreign country. If accomplishing the purpose requires an extended, indefinite stay, and you make your home in the foreign country, you may be a bona fide resident. See Pub. 54 for more information and examples.

Lines 4a and 4b. If you submit a statement to the authorities of a foreign country in which you earned income that you are not a resident of that country, and the authorities hold that you are not subject to their income tax laws as a resident, you are not considered a bona fide resident of that country.

If you submit such a statement and the authorities have not made an adverse determination of your nonresident status, you are not considered a bona fide resident of that country.

Part II

Physical Presence Test. To qualify under this test, you must be a U.S. citizen or resident alien who is physically present in a foreign country, or countries, for at least 330 **full days** during any period of 12 months in a row.

To figure the minimum of 330 full days' presence, add all separate periods you were present in a foreign country during the 12-month period shown on line 7. The 330 full days may be interrupted by periods when you are traveling over international waters or are otherwise not in a foreign country. See Pub. 54 for more information and examples.

Full Day. A full day means the 24-hour period that starts at midnight.

Note: *A nonresident alien who, with a U.S. citizen or U.S. resident alien spouse, chooses to be taxed as a resident of the United States may qualify under this test if the time requirements are met. See Pub. 54 for information on how to make this choice.*

Part III

Enter in this part the total foreign earned income you **earned and received** (including income constructively received) during the tax year. If you are a cash basis taxpayer, however, report on Form 1040 all income you received during the tax year regardless of when you earned it.

Income is earned in the tax year you perform the services for which you receive the pay. However, if you are a cash basis taxpayer and, because of your employer's payroll periods, you received your last salary payment for 1988 in 1989, that income may be treated as earned in 1989. If you cannot treat that salary payment as income earned in 1989, the rules explained later under **Income Earned in Prior Year** apply. See Pub. 54 for more information.

Foreign earned income for this purpose means wages, salaries, professional fees, and other compensation received for personal services you performed in a foreign country during the period for which you meet the tax home test and either the bona fide residence test or the physical presence test. It also includes noncash income (such as a home or car) and allowances or reimbursements.

Foreign earned income does not include amounts that are actually a distribution of corporate earnings or profits rather than a reasonable allowance as compensation for your personal services. It also does not include:

- Pension and annuity income (including social security and railroad retirement benefits treated as social security);
- Interest, dividends, capital gains, alimony, etc.;
- Portion of 1988 moving expense deduction allocable to 1989 that is included in your 1989 gross income (see **Recapture of Moving Expense Deduction** in the Instructions for Form 3903F or under **Moving Expenses** in Pub. 54 for details);
- Amounts paid to you by the U.S. Government or any of its agencies if you were an employee of the U.S. Government or any of its agencies;
- Amounts received after the end of the tax year following the tax year in which you performed the services; or
- Amounts you must include in gross income because of your employer's contributions to a nonexempt employees' trust or to a nonqualified annuity contract.

Note: *A special rule applies to certain employer contributions made to a pension plan before 1963. See* ***Pensions and annuities*** *under* ***Foreign Earned Income*** *in Pub. 54. In addition, if you received income in 1989 for services performed before 1963, you may be able to exclude the income if a right to receive it existed on March 12, 1962. For more information, write to:*

Internal Revenue Service
Attn: IN:C:TPS
950 L'Enfant Plaza South, S.W.
Washington, DC 20024

Income Received in Prior Year. Foreign earned income received in 1988 for services you performed in 1989 may be excluded from your 1988 gross income if, and to the extent, the income would have been excludable if you had received it in 1989. To claim the additional exclusion, you must amend your 1988 tax return. To do this, file Form 1040X.

Income Earned in Prior Year. Foreign earned income received in 1989 for services you performed in 1988 may be excluded from your 1989 gross income if, and to the extent, the income would have been excludable if you had received it in 1988. Do not include this income in Part III.

If you are excluding income under this rule, attach a statement to Form 2555 showing how you figured the exclusion. Enter the amount that would have been excludable in 1988 on Form 2555 to the left of line 39. Next to the amount write "Exclusion of Income Earned in 1988." Include it in the total reported on line 39.

Note: *If you claimed any deduction, credit, or exclusion on your 1988 return that is definitely related to the 1988 foreign earned income you are excluding under this rule, you may have to amend your 1988 income tax return to adjust the amount you claimed. To do this, file Form 1040X.*

Line 11. If you engaged in an unincorporated trade or business in which both personal services and capital were material income-producing factors, a reasonable amount of compensation for your personal services will be considered earned income. The amount treated as earned income, however, may not be more than 30% of your share of the net profits from the trade or business.

If capital is not an income-producing factor and personal services produced the business income, the 30% rule does not apply. Your entire gross income is earned income.

Line 16. Enter on this line the value of meals and/or lodging furnished by, or on behalf of, your employer for his or her convenience that is excludable from your income under section 119. See Pub. 54 for conditions under which you may exclude the value of meals and lodging.

Part IV

If you are claiming the housing exclusion or deduction and the foreign earned income exclusion, complete this part before Part V.

Line 18. Enter the total reasonable expenses paid or incurred during the tax year by you, or on your behalf, for your foreign housing and the housing of your spouse and dependents if they lived with you. You may also include the reasonable expenses of a **second foreign household** (defined later). Housing expenses are considered reasonable to the extent they are not lavish or extravagant under the circumstances.

Housing expenses include rent, utilities (other than telephone charges), real and personal property insurance, nonrefundable fees paid to obtain a lease, rental of furniture and accessories, residential parking, and household repairs. You may also include the fair rental value of housing provided by your employer if you have not excluded it on line 16.

Do not include deductible interest and taxes, any amount deductible by a tenant-stockholder in connection with cooperative housing, the cost of buying or improving a house, principal payments on a mortgage, or depreciation on the house. Also do not include the cost of domestic labor, pay television, or the cost of buying furniture or accessories.

Include expenses for housing only during periods for which:

- The value of your housing is not excluded from gross income under section 119 (unless you maintained a second foreign household); and
- You meet the tax home test and either the bona fide residence test or physical presence test.

Second Foreign Household. If you maintained a separate foreign household for your spouse and dependents at a place other than your tax home because the living conditions at your tax home were dangerous, unhealthful, or otherwise adverse, you may include the expenses of the second household on line 18.

Married Couples. If both you and your spouse qualify for the tax benefits of Form 2555, you each may choose to exclude or deduct part of your foreign housing expenses.

If you and your spouse lived in the same foreign household and file a joint return, the total qualified expenses for the household may be claimed on either your Form 2555 or your spouse's Form 2555. However, if you and your spouse have different periods of residence or presence and the one with the shorter period claims the expenses on his or her Form 2555, only the qualified expenses paid or incurred during the shorter period may be claimed. If you file separate returns, the total qualified housing expenses may either be claimed on your Form 2555 or your spouse's Form 2555, or you each may claim part of the expenses on your separate Forms 2555.

If you and your spouse lived in separate foreign households, you each may claim the qualified expenses for your own household on your separate Forms 2555 only if: (1) your tax homes **were not** within a reasonable commuting distance of each other; and (2) each spouse's household **was not** within a reasonable commuting distance of the other spouse's tax home. This is true even if you and your spouse file a joint return. If the requirements in (1) and (2) above are not met, only one of you may claim the housing exclusion or deduction. This is true even if you and your spouse file separate returns. If your spouse qualifies for, but does not claim, a housing exclusion or deduction, you may include on your Form 2555 the qualified expenses of your spouse's household if the home qualifies as a **second foreign household**.

Line 19. Enter on this line the number of days in your qualifying period that fall within your 1989 tax year. Your qualifying period is the period during which you meet the tax home test and either the bona fide residence test or the physical presence test.

Example. You establish a tax home and bona fide residence in a foreign country on August 14, 1989. You maintain the tax home and residence until January 31, 1991. You are a calendar year taxpayer. The number of days in your qualifying period that fall within your 1989 tax year is 140 (August 14 through December 31, 1989).

Nontaxable U.S. Government Allowances. If you or your spouse received a nontaxable housing allowance as a military or civilian employee of the U.S. Government, see Pub. 54 for information on how that allowance may affect your housing exclusion or deduction.

Line 22. Any amount your employer paid or incurred on your behalf that is foreign earned income included in your gross income for the tax year (without regard to section 911) should be entered on this line.

Examples of employer-provided amounts are:

- Wages and salaries received from your employer;
- The fair market value of compensation provided in kind (such as the fair rental value of lodging furnished by your employer as long as it is not excluded on line 16);
- Rent paid by your employer directly to your landlord; and
- Amounts paid by your employer to reimburse you for housing expenses, educational expenses of your dependents, or as part of a tax equalization plan.

Self-Employed Individuals. If all of your foreign earned income (Part III) is self-employment income, skip lines 22 through 24 and enter a zero on line 25.

Part V

If you choose to claim the foreign earned income exclusion, complete this part to figure the amount of your exclusion.

Married Couples. If both you and your spouse qualify for, and choose to claim, the foreign earned income exclusion, the amount of the exclusion is figured separately for each of you. You each must complete Part V of your separate Forms 2555.

Community Income. The amount of the exclusion is not affected by the income-splitting provisions of community property laws. The sum of the amounts figured separately for each of you is the total amount excluded on a joint return.

Part VI

If you claim either of the exclusions, you may not claim any deduction (including moving expenses), credit, or exclusion that is definitely related to the excluded income. If only part of your foreign earned income is excluded, you must prorate such items based on the ratio that your excludable earned income bears to your total foreign earned income. See Pub. 54 for information on how to figure the amount allocable to the excluded income.

The exclusion under section 119 and the housing deduction are **not** considered definitely related to the excluded income.

Line 38. Report in full on Form 1040 and related forms and schedules all deductions allowed in figuring your adjusted gross income (Form 1040, line 31). Enter on line 38 the total amount of those deductions that are not allowed because they are allocable to the excluded income. See Pub. 54 for information on how to report your itemized deductions that are allocable to the excluded income (such as unreimbursed employee business expenses).

IRA Deduction. The IRA deduction is not definitely related to the excluded income. However, special rules apply in figuring the amount of an employee's IRA deduction. For details, get **Pub. 590,** Individual Retirement Arrangements (IRAs).

Foreign Taxes. You may not take a credit or deduction for foreign income taxes paid or accrued on income that is excluded under either of the exclusions.

If all of your foreign earned income is excluded, you may not claim a credit or deduction for the foreign taxes paid or accrued on that income.

If only part of your income is excluded, you may not claim a credit or deduction for the foreign taxes allocable to the excluded income. Get **Pub. 514,** Foreign Tax Credit for Individuals, for information on how to figure the amount allocable to the excluded income.

Part VII

If an amount is entered on line 26, complete Part VII to figure your housing deduction. Also complete this part to figure your housing deduction carryover from 1988.

One-Year Carryover. If the amount on line 40 is **more than** the amount on line 43, you may carry the difference over to your 1990 tax year. If, because of the 1990 limitation, you cannot deduct the excess in 1990, you may not carry it over to any future tax year.

Housing Deduction Carryover Worksheet (keep for your records)

1. Enter the amount from your 1988 Form 2555, line 40	
2. Enter the amount from your 1988 Form 2555, line 44	
3. Subtract line 2 from line 1. If the result is zero, stop here; enter zero (-0-) on line 45 of your 1989 Form 2555. You do not have any housing deduction carryover from 1988	
4. Enter the amount from your 1989 Form 2555, line 43	
5. Enter the amount from your 1989 Form 2555, line 44	
6. Subtract line 5 from line 4	
7. Compare the amounts on lines 3 and 6. Enter the **smaller** of the two amounts here and on line 45 of your 1989 Form 2555. If line 3 is **more than** line 6, you may **not** carry the difference over to any future tax year ▶	

List of Qualifying Countries and Time Periods—Waiver of Time Requirements

Country	*Time Periods*		
	Beginning	*and*	*Ending*
Afghanistan	April 23, 1979		(Still in effect)
Burma	September 9, 1988		October 24, 1988
China	June 7, 1989		August 9, 1989
Colombia	November 13, 1984		April 25, 1988
	August 29, 1989		(Still in effect)
El Salvador	September 24, 1979		July 31, 1988
Haiti	April 30, 1987		February 26, 1988
Iran	September 1, 1978		(Still in effect)
Iraq	August 31, 1979		January 1, 1987
Lebanon	August 31, 1979		(Still in effect)
Panama	May 12, 1989		(Still in effect)
Peru	July 3, 1986		April 2, 1988
Sudan	October 17, 1985		November 26, 1986
Uganda	July 29, 1985		April 7, 1986

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